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RICARDO, DAVID

1772–1823

David Ricardo was born into a prolific Sephardic Jewish family in London on April 18, 1772. His father was a well-to-do stockbroker. David, already “when young, showed a taste for abstract and general reasoning” (Ricardo 1951–1973, *Works*, vol. 10, p. 4). At the age of fourteen he joined the business of his father. When at the age of twenty-one he married Priscilla Ann Wilkinson, a Quaker, his parents broke with him. Ricardo then began a highly successful career as a stockjobber. He made a fortune on the occasion of the Battle of Waterloo (June 18, 1815) by betting on a defeat of the Napoleonic troops.

CAREER AND WRITINGS

Ricardo’s interest in political economy was ignited by Adam Smith’s *Wealth of Nations* (1776), and it was amplified by economic events at the time, especially the Bank of England’s suspension of the convertibility of bank notes into gold in February 1797 and inflationary tendencies during the Napoleonic Wars. In 1809 Ricardo anonymously published his first article, “The Price of Gold,” in the *Morning Chronicle*. One year later he published the pamphlet *The High Price of Bullion, a Proof of the Depreciation of Bank-Notes*, which swiftly made him known in learned and political circles. The famous Bullion Report to the British House of Commons reflects his influence, and Ricardo became a major contributor in the Bullion controversy. (The controversy unrolled after the Bank of England in 1797 had suspended convertibility of its notes into gold. The Bullionists, including Ricardo, argued that the ensuing increase in money supply would lead to rising prices, whereas the Anti-Bullionists maintained that the money supply was driven by the “needs of trade” reflected by the real bills presented to the Bank for discount. The Bullion Report was strongly influenced by the monetary theorist Robert Thornton, a Bullionist.) In several letters to the *Morning Chronicle* and in a pamphlet titled *Reply to Mr. Bosanquet’s “Practical*

Observations on the Report of the Bullion Committee” (1811), he defended the Bullion Report. In his hands, the quantity theory of money became a powerful weapon against the Bank of England’s inflationary expansion of money circulation, which, while beneficial to a few, was detrimental to the interests of the nation at large.

Eventually, Ricardo came to know James Mill (1773–1836) and Thomas Robert Malthus (1766–1834). Mill incessantly urged Ricardo to write down his ideas and publish them. With Malthus, Ricardo engaged in many controversial discussions until the end of his life. It was Malthus’s relentless criticism that forced Ricardo to rethink his positions and develop what he considered “a very consistent theory” (*Works*, vol. 7, p. 246).

Probably prompted by a move before Parliament to restrict the corn trade in early 1813, Ricardo started to investigate the impact of the accumulation of capital on the rate of profits. This resulted in March 1814 in some “papers on the profits of Capital,” which unfortunately have never been found, and in February 1815 in the publication of his *Essay on the Influence of a Low Price of Corn on the Profits of Stock; Shewing the Inexpediency of Restrictions on Importation*. The *Essay* was eventually to grow into his magnum opus, *On the Principles of Political Economy and Taxation*, published in April 1817. The book sold out in a few months. A second, substantially revised edition came out in 1819, and a third, carrying the new chapter “On Machinery,” in 1821. Ricardo’s “principal problem” in this work was to determine the “laws” that regulate the distribution of the product between the three classes of society—landowners, capitalists, and workers (*Works*, vol. 1, p. 5).

By late 1815 Ricardo had decided to withdraw from the Stock Exchange and invest his money in landed estates—a move supported by his theory of rent, according to which, in an “improving society,” ever larger parts of the soil of a country would become scarce and rise in price. In February 1816 Ricardo published some *Proposals for an Economical and Secure Currency*, in which he put forward anew his “ingot plan.” The plan suggested a return to the gold standard by making bank notes convertible into gold ingots rather than coins. This practice would allow Britain to continue to use paper as the actual means of payment and it would curb the huge profits of the Bank of England (a private institution until 1946), which in Ricardo’s view ought to accrue to the public rather than to the bank’s directors. In 1821, with the resumption of cash payments by the Bank of England, Ricardo’s plan was implemented.

In 1819 Ricardo became a member of Parliament by buying the seat of Portarlington, Ireland. He participated in many debates, mostly on monetary and financial matters. He became famous for his suggestion in 1819 to

repay the whole of the national debt in a few years by means of a tax on property. Ricardo argued that such a tax would not diminish total wealth and would also not unduly hit the propertied classes because the capital value of the current taxes levied on them to cover interest charges and amortization of the national debt was equal to the lump-sum property tax suggested. This proposal became known as “Ricardo’s equivalence theorem.”

After the publication of the first edition of the *Principles*, Ricardo was predominantly concerned with the problems of value and distribution, the measure of value, and the machinery question. The second edition brought substantial changes in the chapter “On Value.” In the third edition, he withdrew his earlier optimistic view on the swift compensation of labor displacement due to the introduction of improved machinery.

Ricardo died at his country seat, Gatcomb Park in Gloucestershire, on September 11, 1823, from an “infection of the ear, which ultimately extended itself to the internal part of the head” (*Works*, vol. 10, p. 12).

RICARDO ON VALUE, DISTRIBUTION, AND CAPITAL ACCUMULATION

In this entry, emphasis will be placed on Ricardo’s contributions to the theory of value, distribution, and capital accumulation. For his views on money, taxation, public debt, and politics, see Giancarlo de Vivo (1987), Samuel Hollander (1979), and Murray Milgate and Shannon Stimson (1991).

Ricardo, a man with considerable practical sense and experience, always defended economic theory against the “vulgar charge” of those who are “all for fact and nothing for theory. Such men can hardly ever sift their facts. They are credulous, and necessarily so, because they have no standard of reference” (*Works*, vol. 3, pp. 160, 181).

Ricardo adopted Smith’s *long-period method*, which focuses attention on “natural” as opposed to “market” prices and thus on the persistent and systematic as opposed to the temporary and accidental factors at work in the economic system. However, Ricardo gave greater emphasis to the members of the “monied class” in bringing about, in conditions of free competition, a tendency toward a uniform rate of profits (see *Works*, vol. 1, p. 88).

Ricardo offered clear statements of the principles of *extensive* and *intensive diminishing returns* in agriculture due to the scarcity of land. While Ricardo was not the first to discover these principles, he deserves credit for their incorporation into a system of political economy whose main aim was the determination of the general rate of profits. With extensive diminishing returns, different plots of land can be brought into a ranking of natural “fertility” that corresponds to the ranking of unit costs of the

agricultural product, say corn. With very low levels of production of corn, only land of the highest fertility will be cultivated and there will be no rent, for essentially the same reason that nothing is given for “the gifts of nature which exist in boundless quantity” (*Works*, vol. 1, p. 69). It is only as capital accumulates and population grows that land of second and third quality, and so forth, will have to be cultivated in order to satisfy a growing social demand. As a consequence, the price of corn will have to rise relative to that of other commodities. The price is determined on no-rent-bearing (i.e., marginal) land and equals unit costs (including profits at the normal rate) on it; the owners of intramarginal lands obtain differential rents reflecting lower unit costs. From this Ricardo concluded against Smith that rent “cannot enter in the least degree as a component part of its price” (see *Works*, vol. 1, p. 77). In addition, rent was not an expression of the generosity of nature, but of its “niggardliness”: it was not the cause of the high price of corn, but its effect.

Setting aside “improvements” in agriculture and assuming a given and constant real wage rate, an extension of cultivation while increasing the surplus product involves an ever larger part of it being appropriated as rent. It follows that the “natural tendency of [the rate of] profits then is to fall” (*Works*, vol. 1, p. 120). The fall is not due to an intensified “competition of capitals,” as Smith had maintained, but to diminishing returns in agriculture (and mining).

Profits in turn depend on wages. As is the case with all commodities, Ricardo distinguished with regard to labor between its “natural” and its “market” price. The former is defined in conjunction with the rate of capital accumulation: in an “improving society,” natural wages are typically higher than in a stagnant one because, via the wage rate, the growth of population is attuned to the requirements of accumulation. Ricardo also stressed the historical and social dimensions of the natural wage and warned that it must not be mistaken for a purely physiological minimum of subsistence (*Works*, vol. 1, pp. 96–97). He even contemplated the possibility that the “population may be so little stimulated by ample wages as to increase at the slowest rate—or it may even go in a retrograde direction” (*Works*, vol. 8, p. 169). Therefore, Ricardo can hardly be called a strict adherent to Malthus’s “law of population.” He also discussed the possibility of workers participating in the sharing out of the surplus product. In this case, he felt the need to replace the concept of a given real (i.e., commodity) wage rate by a share concept, or “proportional wages” (Staffa 1951, p. lii), that is, “the proportion of the annual labour of the country ... devoted to the support of the labourers” (*Works*, vol. 1, p. 49). It was on the basis of the new wage concept (and on the premise that the social capital consisted only of, or could be reduced to, wages) that Ricardo then asserted

what was called his “fundamental proposition on distribution”: that the rate of profits depends on *proportional wages*, and on nothing else.

One element of Ricardo’s theory of profits has particularly puzzled his interpreters. In a letter written in March 1814 he stated: “It is the profits of the farmer which regulate the profits of all other trades, and as the profits of the farmer must necessarily decrease with every augmentation of Capital employed on the land, provided no improvements be at the same time made in husbandry, all other profits must diminish and therefore the rate of interest must fall” (*Works*, vol. 6, p. 104). According to the Italian economist Piero Sraffa (1898–1983), the “rational foundation” of the “basic principle” of the determining role of the profits of agriculture was that “in agriculture the same commodity, namely corn, forms both the capital (conceived as composed of the subsistence necessary for workers) and the product,” so that “the determination of the ratio of this profit to the capital, is done directly between quantities of corn without any question of valuation” (Sraffa 1951, p. xxxi). In order for other trades to earn the same competitive rate of profits, their prices have to adjust relative to corn. Sraffa was careful to stress that this model was “never stated by Ricardo in any of his extant letters and papers.” Yet although direct evidence is missing, Sraffa saw enough indirect evidence to support this view (Sraffa 1951, p. xxxi). It is interesting to note that the “basic principle” that Sraffa ascribes to Ricardo was clearly spelled out by Robert Torrens (1780–1864), who called it a “general principle” and acknowledged his indebtedness to Ricardo (1820, p. 361).

Malthus’s insistence that capital never really consists of a single commodity that is identical with the product obviously required a deeper analysis. This forced Ricardo in the *Principles* to abandon his corn-ratio theory in favor of the labor-embodiment principle of value. Whereas in his early theory the rate of profits was conceived as the ratio between two quantities of *corn*, it was now conceived as the ratio between two quantities of *labor*: the amount of labor “embodied” in the *surplus* product (exclusive of the rents of land) and the amount embodied in the social capital (where Ricardo frequently identified capital with wages). This change was possible by introducing the hypothesis that commodities exchange according to the direct and indirect labor necessary in their production. In this way, bundles of heterogeneous commodities are made commensurable. The new theory replicated the important finding that the *rate* of “profits would be high or low in proportion as wages were low or high” (*Works*, vol. 1, p. 111). The labor theory of value enabled Ricardo to dispel the idea deriving from Adam Smith’s “adding-up theory” of prices (Sraffa 1951) that wages and the rate of profits could move independently of one another and to establish the constraint binding changes in the two distributive

variables, given the system of production. It was an ingenious move that allowed him, or so he thought, to free the simple inverse relationship between wages and the rate of profits from “a labyrinth of difficulties” (*Works*, vol. 6, p. 214) caused by price movements.

However, Ricardo was aware of the fact that his “general rule” of value was “not rigidly true” (*Works*, vol. 7, p. 279) and was “considerably modified by the employment of machinery and other fixed and durable capital” (vol. 7, p. 30). Different proportions of means of production and direct labor, along with different durabilities of capital goods employed in their production, would make the relative prices of commodities depend on income distribution: the higher the rate of profits (and, correspondingly, the lower the wages), the relatively more expensive will be commodities produced with a high proportion of means of production to labor and means of production that are long-lived. The fact that “profits [are] increasing at a compound rate ... makes a great part of the difficulty” (*Works*, vol. 9, p. 387).

This fact threatened to undermine Ricardo’s novel solution to the theory of profits. The task of finding a way out of the impasse occupied him until the end of his life. Apparently, to play down the modifications to the labor theory of value as unimportant was not good enough (see *Works*, vol. 9, p. 178). He sought to cope with this problem in terms of his concept of an “invariable measure of value” (see Kurz and Salvadori 1993). Originally, that concept was designed by Ricardo for the purpose of carrying out interspatial and intertemporal comparisons, that is, comparisons relating to *different* technical environments. An invariable standard of value would consist of a commodity produced with an unvarying quantity of total labor. Hence, if another commodity varied in value relative to the standard, it would be clear that this was due to a change in the quantity of labor bestowed on the production of that commodity.

Ricardo now had to face the entirely different problem that even in a given technical environment two commodities may vary in relative value consequent upon a change in income distribution. This was due to the “variety of circumstances” under which commodities are produced (*Works*, vol. 4, p. 368). Ricardo tried to tackle the problem in terms of searching for a standard of value that would have to be a “medium between the extremes” (vol. 4, p. 372). While Ricardo’s discussion of this problem is layered with different meanings, and is not always very clear, there can be no doubt that the main purpose of his investigation was to elaborate a consistent theory of value and distribution. This necessitated first and foremost unraveling the properties of a given system of social production as regards the set of alternative constellations of distribution and relative prices compatible with it.

However, since he did not fully master the subject, Ricardo, for lack of a more satisfactory theory, clung to a doctrine that, he felt, offered a sufficiently solid ground to stand on: the labor theory of value. Embodied labor was seen by him to be the main determinant of value and somehow, he thought, both “invariability” requirements could be formulated in terms of a standard that fared well on both counts. The standard had to be produced by a constant amount of labor and by medium circumstances. As regards the second requirement, by expressing bundles of commodities such as the surplus product distributed as profits on the one hand and social capital on the other in terms of such a standard, the positive and negative deviations of prices from labor values could, in each aggregate, be expected to balance. This would allow one to continue to envisage the rate of profits as a ratio of two quantities of labor and thus depend on “the proportion of the annual labour of the country devoted to the support of the labourers” (*Works*, vol. 4, p. 49). The measure was designed to corroborate Ricardo’s dictum that the laws of distribution “are not essentially connected with the doctrine of value” (*Works*, vol. 8, p. 194).

While there is no general theoretical solution to Ricardo’s first problem, Sraffa (1960), in terms of the concept of “standard commodity,” provided a solution to a somewhat reformulated version of Ricardo’s second problem. It goes without saying that Ricardo was wrong in assuming that two birds can be killed with one stone (see Kurz and Salvadori 1993).

The theory of value and distribution formed the analytical centerpiece of Ricardo’s political economy. It was designed to lay the foundation of all other economic analysis, including the investigation of capital accumulation and technical progress, of development and growth, of trade, and of taxation and public debt.

Like Adam Smith, Ricardo advocated free trade, but he felt that an explanation of the pattern of trade in terms of absolute cost advantages was unsatisfactory. He elaborated the principle of comparative cost and illustrated it in terms of a famous numerical example involving two countries, Portugal and England, and two commodities, cloth and wine. He showed that even if Portugal were to have an absolute advantage in the production of both commodities, there would be room for mutually beneficial trade provided Portugal specialized in the production (and export) of that commodity where its absolute advantage was relatively larger, wine, while England specialized in the production (and export) of the commodity where its absolute disadvantage was relatively smaller, cloth. The effect of foreign trade could be an augmentation of the riches of both trading countries. Ricardo’s principle of comparative cost was called the “deepest and most beautiful result in all of economics” (Findlay 1987, p. 514).

In the *Principles*, a great deal of attention is devoted to taxes, the problem of tax incidence, and the impact of taxes on capital accumulation. Ricardo stressed that “there are no taxes which have not a tendency to lessen the power to accumulate. All taxes must either fall on capital or revenue.” However, he added: “Taxes are not necessarily taxes on capital, because they are laid on capital; nor on income, because they are laid on income.” (*Works*, vol. 1, p. 152). The problem of tax incidence is then illustrated in a number of cases. For example, on the premise that workers are paid a subsistence wage, a tax on wages could not be borne by workers: nominal wages would have to rise, leaving real wages constant, and the tax would accordingly be borne by capitalists. (This premise also underlies Ricardo’s tax proposal to repay the national debt.) The situation is similar when a tax is laid on a wage good. In accordance with his doctrine that rent does not enter price, Ricardo concluded that “a tax on rent would affect rent only; it would fall wholly on landlords, and could not be shifted to any class of consumers” (vol. 1, p. 171). A tax on profits would raise the prices of products: “if a tax in proportion to profits were laid on all trades, every commodity would be raised in price” (vol. 1, p. 205). Depending on the consumption patterns of the different classes of society, this would affect their members differently. A rise in the price of wage goods would again entail a corresponding adjustment of nominal wages: “whatever raises the wages of labour, lowers the profits of stock; therefore every tax on any commodity consumed by the labourer, has a tendency to lower the rate of profits” (vol. 1, p. 203).

Ricardo’s treatment of taxes, while containing many interesting ideas and suggestions, is generally not considered to be the strongest part of his book and is said to suffer from a poor arrangement of the material and an argument that is frequently tied to excessively restrictive assumptions, such as constant real wages.

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RIGHT TO WORK LAWS

SEE *Labor Law*.

RIGHT WING

The term *right wing* originated with the seating arrangement of the French National Assembly of 1791. The royalists sat on the right side of the chamber while their opponents were seated to their left on an elevated section called the Mountain. Between them sat a mass of deputies, known as the Plain, who did not belong to any particular faction.

OPPOSITION TO THE FRENCH REVOLUTION

The Right, representing aristocratic, royalist and clerical interests, supported the monarchy. The Left called for a limited monarchy and a unicameral legislature. But these labels took on new meanings during the course of the French Revolution. Although originally advocates for moderate reform, the powerful Jacobin clubs became increasingly radicalized as popular figures such as Maximilien Robespierre, Louis St. Just, and Jean-Paul Marat, whose inflammatory rhetoric led to the execution of King Louis XVI and the Reign of Terror, gained influence. Eventually, anyone who defended the monarchy was regarded as a member of the Right.

Since the beginning of the French Revolution, right-wingers typically have resisted calls for revolutionary

change. The earliest and perhaps the most famous and influential of them, English statesman Edmund Burke (1729–1797), furiously denounced the *armed doctrines* of the revolutionaries in his *Reflections on the Revolution in France* (1790). He appealed to custom, tradition, religion, prescriptive rights, and social hierarchy. Many subsequent critics of the Revolution acknowledged their intellectual debt to Burke. They believed that the Revolution threatened not only traditional institutions and arrangements but the very foundations of European civilization itself.

CHANGING MEANINGS

What it meant to be a right winger would vary depending on the country, culture, and the particular issue. English conservatives, for example, opposed the Utilitarians, or Classical Liberals, who favored free market economics and minimal government. But by the end of the nineteenth century, the positions were reversed. As the Left embraced socialism, the Right became defenders of the free market.

For nearly two centuries, these competing groups battled each other mostly over questions of economics and class. The Right defended the propertied interests of the privileged classes while the Left sought to equalize wealth and property. For the most part, they debated the extent to which wealth should be redistributed through government intervention. In the early-twenty-first century, cultural and social issues, such as abortion, same-sex marriage, secularism, and multiculturalism, have come to play a more dominant role in Left-Right political struggles.

THE RIGHT WING IN THE TWENTY-FIRST CENTURY

Although there is little consensus over what is meant by right wing, most persons of the Right would subscribe to a basic set of beliefs. The Right gives greater primacy to liberty than equality. Social hierarchy is not only the natural order of things, but desirable. Human nature is fixed and cannot be perfected. Original sin or inherent defects of character explain our proclivity toward violence and evil. Members of the Right generally value religion (usually Christian) as a civilizing force. Culture matters more than either politics or economics. With the exception of the authoritarian Right and radical libertarians, right-wingers detest both collectivist and extreme individualist ideologies. Believing that humans are social creatures, right-wingers hold that people find meaning and purpose in their existence through membership in strong, viable groups such as family, voluntary associations, church, and local community. They equally condemn all efforts to either collectivize or atomize society. Because of the importance right-wingers place on cultural, ethnic, and national particularity, they oppose globalist and multicult-